



# Michigan *Office of the Auditor General* **REPORT SUMMARY**

## *Performance Audit Selected Medicaid Pharmaceutical Drug Transactions Medical Services Administration Department of Community Health*

Report Number:  
39-115-04

Released:  
March 2006

*Providing pharmaceutical services to Medicaid recipients is one of the optional medical services that Michigan has elected to provide. The Department of Community Health (DCH) began contracting with a pharmacy benefits manager (PBM) in April 2000 for various pharmaceutical services. DCH paid \$1.6 billion for 31.6 million pharmacy claims processed by its PBM during the period October 1, 2002 through September 30, 2004. DCH paid its PBM \$17.8 million during that same two-year period for contract administration.*

### ***Audit Objective:***

To assess the effectiveness of DCH's efforts in monitoring its contracted PBM's performance to ensure that Medicaid is the payer of last resort for selected pharmaceutical drug transactions.

### ***Conclusion:***

DCH's efforts were not effective in monitoring its contracted PBM's performance to ensure that Medicaid is the payer of last resort for selected pharmaceutical drug transactions.

### ***Material Conditions:***

The material conditions in our report disclosed \$55.1 million in Medicaid payments comprised of known overpayments of \$15.2 million and questionable payments of \$39.9 million.

DCH did not sufficiently monitor its PBM to ensure that the PBM had effective controls to prevent and detect when pharmacy providers billed Medicaid for certain pharmacy claims that pharmacy providers should have billed to Medicare. In

addition, DCH did not recover from the pharmacy providers or the PBM the associated Medicaid payments made for pharmacy claims that Medicare should have paid. (Finding 1)

As a result, DCH overpaid \$15.2 million (\$6.7 million of State General Fund/general purpose funding) in Medicaid fee-for-service pharmacy claims for a specific pharmacy product that "dual eligible" beneficiaries' Medicare benefits should have paid during the period July 1, 2000 through September 30, 2004. DCH may also have overpaid some portion of another \$10.4 million in questionable Medicaid fee-for-service pharmacy claims for other pharmacy products that are sometimes eligible for Medicare payment.

DCH did not sufficiently monitor and investigate Medicaid fee-for-service prescription drug payments processed by its PBM to help ensure that Medicaid is the payer of last resort. Also, DCH did not determine the appropriateness of questionable third party payment amounts,

did not determine if its Third Party Liability (TPL) section had recovered inappropriate Medicaid payments made for pharmacy claims, and did not determine the amounts for which the PBM or pharmacy providers may be liable. (Finding 2)

As a result of DCH's insufficient monitoring, DCH could not ensure that Medicaid was the payer of last resort for questionable prescription drug claims totaling approximately \$29.5 million (\$13.0 million of State General Fund/general purpose funding).

***Reportable Condition:***

DCH did not ensure that postpayment audits conducted at pharmacy providers included a review of billings to and amounts collected from third parties for Medicaid fee-for-service prescription drug claims (Finding 3).

***Noteworthy Accomplishments:***

In November 2003, The Lewin Group reported that Michigan had the second lowest per member per month Medicaid pharmacy cost of any state. In September 2004, the U.S. Department of Health and Human Services' Office of the Inspector General reported that Michigan ranked first out of 42 states in having the lowest reimbursement rates in three categories of drugs. DCH informed us that per capita pharmacy expenditures in the Michigan Medicaid Program decreased 0.7% from fiscal year 2002-03 to 2003-04, while the

national per capita amount of pharmacy expenditures increased 11.3%.

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***Audit Objective:***

To assess the effectiveness of DCH's efforts to prevent and detect Medicaid payments for pharmaceutical drugs prescribed by service providers excluded (sanctioned) from participating in Medicaid.

***Conclusion:***

DCH efforts were moderately effective in preventing and detecting Medicaid payments for pharmaceutical drugs prescribed by service providers excluded (sanctioned) from participating in Medicaid.

***Reportable Condition:***

DCH needs to improve its controls to prevent and detect Medicaid fee-for-service payments for pharmaceutical drugs prescribed by sanctioned Medicaid service providers. In addition, DCH needs to seek repayment from the pharmacy providers or the PBM for the pharmaceutical drugs prescribed by sanctioned Medicaid service providers. (Finding 4) The finding disclosed \$92,504 in inappropriate Medicaid payments for drugs prescribed by the sanctioned Medicaid service providers.

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***Agency Response:***

Our report contains 4 findings and 7 corresponding recommendations. DCH's preliminary responses indicate that it agrees with all 7 of our recommendations.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



Michigan Office of the Auditor General  
201 N. Washington Square  
Lansing, Michigan 48913

**Thomas H. McTavish, C.P.A.**  
Auditor General

**Scott M. Strong, C.P.A., C.I.A.**  
Deputy Auditor General